STANDARDS OF SICKNESS INSURANCE. I

With the rapid conquest of public opinion over popular prejudices in matters of employers' liability, the United States stands committed to the policy of social insurance. Considering the enormous amount of legislative work required to effect the change, the progress made by the workmen's compensation movement since 1911 is amazing.

Over one-half of the states had acts in force by January 1, 1915. Of the remaining states a good many are in process of passing or preparing their acts; only in the solid South may states be found in which no move toward abandoning employers' liability has been started. But the acts of Maryland, Kentucky, Louisiana, and Texas are a significant indication that at least in this branch of labor legislation the "solid South" is solid no longer.

Undoubtedly a good many, perhaps most, of the acts are far from granting all that may be expected of a system of workmen's compensation. The radical changes already made in many of the acts, as, for instance, those of California, Ohio, Wisconsin, and Massachusetts, notwithstanding the very short experience with the original enactments, show that the whole matter of compensation is as yet in the formative stage. But the principle itself is practically accepted without further discussion. The shortcomings of the acts are easily explained by lack of familiarity, on the part of all social groups concerned, with the problem at issue. With this issue practically settled, at least in principle, the attention of the progressive student in social legislation may be centered upon other branches of social insurance. The flood of literature on compensation has not subsided, but has acquired a deeper character.

Instead of agitation, there is inquiry; instead of popular articles, specialized technical studies. The formation of the Casualty Actuarial and Statistical Society of America has furnished a new important medium for the scientific study of statistical and insurance problems of compensation which were scarcely recognized three or four years ago.

Meanwhile, the first steps are being taken toward creating a sentiment in favor of other branches of social insurance. The First American Conference on Social Insurance, held in Chicago in June, 1913; the establishment of a department of social insurance in the *Survey;* the preparations for the International Congress on Social Insurance to be held in Washington in the fall of 1915[1]—all these are symptoms of the new movement. Sickness insurance was one of the main subjects of discussion before the meeting of the American Association for Labor Legislation in Washington in December, 1913. Old-age pensions and insurance have been thoroughly discussed in several state reports; unemployment insurance was emphasized in the recent conference of the American Association for Labor Legislation held in New York in March, 1914.

It is impossible to prophesy with certainty which one of these branches of social insurance will be the next one to be taken up seriously by American legislatures. A good deal often depends upon sudden development of popular interest, or social pressures, as for instance the national excitement over the problem of unemployment in the winter of 1914, under the influence of the picturesque efforts of the I.W.W. to invade the churches of New York City. But a normal development of the social-insurance principle would seem to demand that the next step be taken in the domain of sickness insurance.

Several reasons for this may be mentioned. Admittedly unemployment insurance presents many technical difficulties which even in Europe have delayed its development. In the problem of old-age provision we are necessarily confronted by the antagonism (more seeming than real, to be true) between the principle of insurance and the principle of gratuitous governmental pensions, which will delay legislative action for some time, especially in view of the growing popularity of the pension principle among organized workers. No such serious difficulties prevent the development of sickness-insurance legislation.

[1] Since this was written, the hope of holding the Congress in 1915 has been given up because of the war, but hope for a Congress at some future date has not been abandoned.

The precedents, not only of continental Europe, but of Great Britain as well, offer a reasonable argument. There is a material basis for legislation in the existence of voluntary sickness-insurance organizations of various types, and in the abuses discovered in connection with a certain type of commercial sickness insurance. Already a few bills have been introduced in various state legislatures, and there are many committees and commissions studying the problem and preparing statistical material or actual drafts of bills.

In short, sickness insurance is at present going through the same stage which accident compensation went through four or five years ago. Perhaps a growth at similar speed may reasonably be hoped for, but the same or similar difficulties must be expected and if possible some of them should be prevented. The bewildering variety of plans, systems, methods, and provisions of workmen's compensation found in the acts already passed may be defended on the ground that the country has been divided into so many experimental laboratories, in which the various products of ingenuity are being tried out, with the hope that the best plan will win in the end.

But after all it must not be forgotten that frequently it is a very painful process of human vivisection, and that many of these experiments are so poorly planned that it is very difficult to justify them from a scientific point of view. Our numerous and varied compensation acts not only contain many provisions eminently unjust, but too frequently show a very poor, almost inexcusably faulty technique of construction. Many errors have been committed which but repeat the errors of the early history of the compensation movement in Europe, and others which nothing but the grossest ignorance of the underlying problem can explain. Time and habit give sanction to the worst errors of inefficient lawmaking, and we are perhaps farther away, at least for the time being, from efficient uniformity in compensation legislation than we were two years ago.

There seems only one way in which similar confusion in the other fields of social insurance, as they develop in this country, may be prevented or at least mitigated, and that is careful discussion of the basic principles during the preliminary stages of, and

side by side with, the propaganda which must prepare the ground for legislation.

An effort is made in the following pages to sketch the outline of the basic principles underlying a broad system of sickness insurance, with the hope that it will be of some assistance to those who are trying to preach or teach it to public opinion, or who have gone so far as to prepare drafts of legislative enactments. In developing these principles the writer did not venture to draw too much upon his constructive imagination, though he is ready to admit that such "social invention," as it has been recently called, is very necessary and perhaps essential. Whenever such "social invention" is undertaken, immediately the land of doubt is reached and perhaps it would seem wiser and safer not to venture into it alone. But the wealth of European experience has already established some fairly well-defined dicta, and at least through their study serious errors of commission may be prevented.

In drawing references from European experience it was sufficient to keep in mind the main types, and for this purpose three countries have been selected, representing the three distinct and perhaps most important types. These countries are Germany, Great Britain, and Denmark.

The systems of Germany and Great Britain are at present the two most important systems of sickness insurance, both being compulsory but with the important difference that Germany not only prescribes the obligation to insure, but also indicates the insurance-carrier, while the British system leaves the selection of the insurance-carrier to the free choice of the insured. Denmark has perhaps the best voluntary system of sickness insurance in Europe, and has been selected for this reason.

The three types represented by these three countries may be described as follows: (1) voluntary insurance with state subsidies (Denmark); (2) compulsory insurance with a practically prescribed insurance-carrier (Germany); (3) compulsory insurance with freedom of choice of insurance-carrier (Great Britain).

Compulsory or voluntary insurance?—The crucial question which demands an answer at the very outset is whether a voluntary

or a compulsory system is contemplated. Almost all other provisions of the system depend upon this.

Voluntary insurance against sickness, as against accidents or other emergencies, exists as a spontaneous growth in this country as in almost all others. Both the commercial and the mutual, co-operative forms are well known. When, however, voluntary insurance is spoken of in connection with social-insurance problems, something more than platonic indorsement of existing provisions for voluntary insurance is meant. It is assumed that the state must take some definite steps to stimulate and encourage, or at least to control and protect, these spontaneous efforts. If compulsion is rejected, the choice is left between various degrees of assistance and guidance of the voluntary systems by governmental authority.

Accordingly, three systems of sickness insurance may be recognized in Europe, placed here in the logical order of development toward a comprehensive system rather than in strict chronological sequence: (1) voluntary insurance, regulated by state authority; (2) voluntary insurance with substantial state subsidies in addition to regulation and control; and (3) compulsory insurance.

In comparing these three systems, the first noteworthy fact is the strong and increasing tendency toward compulsory insurance throughout Europe. Beginning with the German system established in 1884, no less than nine European countries (Germany, Austria, Hungary, Luxembourg, Norway, Servia, Great Britain, Russia, Roumania, in chronological order) have established systems of compulsory sickness insurance for all or part of their wage-workers, and in addition many other countries, not popularly credited with compulsory systems of social insurance, nevertheless have such systems for certain groups of wage-workers (largely those employed in mining, railroading, and navigation) in virtue of special legislative enactments (Belgium, Italy, France, and Spain). Subsidized voluntary insurance against sickness may be said to exist in five countries only: Sweden, Denmark, Belgium, France, and Switzerland. The most important systems are those of Denmark and Switzerland. That of the latter, however, is still in the making, and the Danish presents the highest development of this form of social insurance. The purely platonic attitude of

regulation persists in a very few European countries only. Great Britain and Switzerland have abolished it within the last half-decade. Italy, Holland, and Belgium (and perhaps France) may be included in this group.

The lesson of history is therefore strongly in favor of the compulsory principle in this branch of social insurance. Evidence to that effect has been strengthened within the last few years. After the organization of the first two or three compulsory systems in the early eighties, there seems to have been a twenty-year period of testing the experiment. As a result of this test the years 1909–12 have brought five new national compulsory sickness-insurance systems in Europe.

Argument for compulsion.—What considerations have brought about this victory of the compulsory principle?

1. The demonstrated inability to bring the neediest strata of the working class into the system by any measures short of compulsion. Under all voluntary systems the proportion of the insured in a definite labor group is in inverse ratio to its economic status. Ability and willingness to meet the cost of insurance presuppose the existence of some surplus in the budget and a sufficient cultural status for the appreciation of the advantages of the insurance principle. Both are least present in the lower strata of the wage-working class where disease is most frequent and the economic need caused by disease greatest. Experience has proved that only by compulsion can these be reached.

2. Shifting the burden of insurance. A study of the social causes of disease establishes at least a partial responsibility for illness on the part of industry and society. Justice would require that industry and society should share in the cost of sickness insurance. But besides this argument of abstract equity, there is the economic fact that for a large proportion of the wage-workers the earnings are such as to make the cost of insurance too heavy a burden. Both equity and necessity require that at least part of this burden be shared by other classes of society. The subsidized voluntary system recognizes this, and endeavors to relieve the burden by a state or local governmental subsidy. But only through a compulsory system does it become possible to shift part of the

cost upon the employer and upon industry at large. The essential feature of compulsion is exercised upon the employer who is forced to meet part of the cost.

3. Standardization of the insurance system. Not only the quantitative, but also the qualitative, development of the insurance system must be considered. It is important, not only that all strata of working men be insured, but that the services rendered by the insurance institutions be effective and capable of meeting the problems which call for sickness insurance. Under a subsidized system an effort is usually made to accomplish this result by exacting certain conditions before the subsidy is granted. This method has reached its highest development under the Swiss law. But, at best, the requirements of a voluntary system cannot be far above the actual practice of the organizations existing at the time, or otherwise it is in danger of failing entirely. Thus, even in Denmark the quality of service is not always satisfactory, and is usually below that of the compulsory systems. On the other hand, both Germany and Great Britain present and enforce definite minimum requirements, which are adjudged practical and necessary, while the very contribution from industry makes a higher minimum possible.

Extent of insurance.—Having determined upon a definite system of sickness insurance, to whom should we make it applicable?

Under a compulsory system, this problem is somewhat more complex than if the system is voluntary. If the system is one of platonic regulation only, very few restrictions are necessary. But when a substantial public subsidy is granted, it must be justified by the economic status of the beneficiaries. In Denmark, membership in the subsidized societies, with full rights as to subsidy, is permitted to "wage-workers, artisans, home workers, and employees and other persons in similar economic conditions," while individual cases may be decided on their merits.

Under compulsory systems numerous limitations are often found and some of these limitations may, for reasons of practical administration, be quite inevitable.

The original German act of 1883 was rather limited, but was gradually extended by numerous amendments to new industrial

groups. Roughly, the act of 1903, in force until the recent revision of the whole insurance code in 1911, included practically all industry, building, mines, quarries, transportation, commerce, and certain office employees. The act of 1911 broadened the application of the law so that practically all employees are included. The large groups brought under the law for the first time are the agricultural laborers, domestic servants, and home workers, about 5,000,000 in all.

The British act, adopted many years later, from the first endeavored to be practically universal in its application. It covers all employed persons with a few exceptions of minor importance, explained by special considerations, such as previous existence of similar provisions.

The lesson of European experience, therefore, is decidedly for a broad general act, rather than one limited in its application. It will probably be argued that it would be better to begin on a small scale, as Germany has done. But it must not be forgotten that we are entering the field thirty years later, and in face of a wealth of experience, while Germany was forced to undertake experimental work in an untried direction. Of course specific exception may be necessary, often depending upon local conditions. But the basic rule, or at least the ideal, should be general application.

The large groups, concerning which a definite decision must be arrived at in the very beginning, are four or five: (1) agricultural laborers, (2) domestic servants, (3) home workers, (4) casual and irregular employees, (5) government employees. Undoubtedly in the case of each one of these groups special conditions exist which may require special consideration in the act, or in the detailed regulations which must be left to some administrative body. Detailed discussion of all these specific conditions is impossible in a brief outline of standards, such as is here intended, but the main point involved may be indicated here.

The history of compensation legislation in this country has already demonstrated that there is a well-proved tendency to except many of these groups. The argument is often lack of necessity for inclusion upon the plea either that the occupations are non-hazardous, or that the wage contract usually presupposes

reasonable care during disability. That is frequently stated to be the case with the agricultural laborers and domestic servants. In many cases there may be a basis for this contention; but it cannot be universally true. Neither farmers nor housewives will support for an indefinite time disabled employees or widows and orphans of those fatally injured, and the peculiar conditions of the implied wage contract (in so far as they are not exaggerated) may at best demand only a modification and not an abolition of the compensation principles. Nor are the broad statements as to the lack of hazard at all based upon actual facts. The truth of the matter is that the exclusion of farmhands or domestic servants is due to the entirely different reason of expediency—to inability or unwillingness to force the additional charge upon farmers or householders.

The reasons for excepting these two groups from the benefits of the sickness-insurance scheme are even weaker than in case of compensation, for the arguments in favor of the system are not at all based upon any specific occupational hazard. Only on a ground of political expediency—the numerical and political strength of the farmers, the objection of the housewife to stamp-licking—can their exception be justified. Such compromises may temporarily be necessary, but it is better to be aware of the nature of such exceptions. The theoretical standards must include both.

Still stronger is the argument in favor of inclusion of the home workers and casual employees. Both of these groups are probably at the very bottom of the economic scale. The economic and hygienic effects of illness among them are extremely serious. The cost of the insurance to the employer cannot be considered an excessive charge. But the exclusion of these two groups is often justified on entirely different grounds, namely by administrative considerations. When the conditions of the wage contract are temporary or involved and indefinite it is not always a simple matter to provide for the necessary administrative machinery to keep these two groups insured and enforce the employers' contribution. But the experience of Great Britain has demonstrated that it is not impossible to devise administrative methods to realize the insurance of these groups. The details are perhaps too

complicated to go into at any great length. Moreover, they do not constitute an essential aspect of the general standards. Difference in conditions may call for different provisions in this country. It may seem better not to embody such administrative details in the act, and the administrative machinery created for the system may be trusted to possess enough inventive spirit to adopt European methods or devise new ones. But it is important to insist that the classes in question should not be excluded.

The situation is somewhat different in regard to government employees. The only reason for excluding them may be the permanency of their employment contract and, in addition, the provisions for disability already existing and often more liberal than those that a universal sickness-insurance system can offer. These conditions, however, seldom apply to the industrial employees of the government. No exception of government employees as such appears necessary, though the system established may contain a general proviso for distinct treatment of all groups already provided for in a different way.

A few words may be said in regard to the limitations upon the extent of application of a sickness-insurance system.

Age limits have been suggested, on the plea that minors, who while employed are not necessarily fully self-supporting, might be excepted; in Great Britain, persons who reach the pension age are also excepted. No good reasons for any such exceptions present themselves in this country—the fact of employment is of decisive influence. All restrictions would have the additional drawback of causing false statements, whether the influence might be toward or away from insurance.

More important is the restriction as to the size of the annual income which is found in most compulsory acts. In the case of the wage-workers employed in manual labor, such restrictions seem hardly necessary. The margins within which wages fluctuate are after all limited. They seldom rise to a level where sickness insurance would be altogether unnecessary, and still more rarely do they remain on such a high level for a long time. Unemployment frequently reduces even the unusually high weekly wage to the basis of modest annual earnings.

But the situation is somewhat different in regard to salaried employees, who are included in a sickness-insurance system. The meaning of the term is not a rigid one. While a majority are wage-workers in everything except the technical nature of their work and the lesser frequency of payment periods, the class includes a small proportion of persons of very high incomes, to whom neither compulsion nor subsidy from employer or state would appear necessary. Some maximum limitation, therefore, appears useful. In Germany this has been placed at 2,500 marks. In this country, a limitation of about $1,200 or $1,500 a year would probably reach to the same economic level.

In other words, the presumption must always be in favor of inclusion. From a social point of view such wide leaks as were left in most of our compulsory acts are not at all defensible. The two greatest systems of sickness insurance, those of Germany and Great Britain, are almost universal as indicated by statistics of membership. In Germany, about 1910, approximately 14,000,000 were insured, constituting about 22 per cent of the population. The increases of the act of 1911 must have raised the number to some 19,000,000, or about 30 per cent. In Great Britain, the number of insured reached 14,000,000, or over 30 per cent. The same percentage would give in this country from 27 to 30 million insured, comparing well with the number of persons gainfully employed.

In this connection, the results of the voluntary insurance system in Denmark are interesting. In 1910 there were some 700,000 insured, out of a total population of 2,750,000, or about 25 per cent, which would seem to indicate a very favorable proportion in the absence of compulsion. These figures are very deceptive, however. Of the total number insured, women constitute somewhat more than the majority, because married women may insure under the law; so that the number of families actually protected is only about one-half, and the proportion of insured males not over 25 per cent, while both in England and in Germany nearly 50 per cent of the male population are included.

Voluntary insurance.—It is necessary to remember that whatever advantage the voluntary insurance method possesses need not

be lost in a compulsory system. It is very easy to tack a voluntary system on to the compulsory one. Both Germany and Great Britain have done so.

At least four distinct social groups may be mentioned, to whom the advantages of voluntary insurance may be offered.

First, there are the persons who carry insurance for some time under the compulsory law, and who, because of an improvement in their economic status, rise out of the compulsory class. It is very desirable that they be permitted to preserve their membership, because their relief from compulsion may not be permanent, and because, having become used to this institution, they may consider complete retirement from it a hardship. The argument can be justly made by them that, having paid premiums while young and healthy, they are not fairly treated if required to abandon insurance at an advanced age. Under this group may be mentioned female employees, who cease being wage-workers through marriage. A system which would not permit them to remain insured would appear discriminating against the majority of female employees.

Secondly, there is a group consisting of members of a family working within their family, without any definite remuneration. As an illustration, the great class of farmhands working upon the family's farm may be mentioned. When do they constitute an integral part of the family economy? No wages are paid, and in sickness they presumably will not be deprived of means of support. Yet the economic loss caused by sickness is not diminished merely, but transferred from the individual to the family unit. The advantages of insurance are evident, but before a general compulsory system for this class may be advocated, the privilege of voluntary insurance may be extended to include it.

Thirdly, there are all such wage-earners, or employees, as for some reason are not included under the compulsory system. If the reason for such exception is administrative rather than economic, it is evidently fair to permit them at least to come under the system voluntarily.

Finally, if the whole theory upon which compulsory sickness insurance is based is at all correct, then the same economic argu-

ments may be applicable even beyond the groups of wage-workers and salaried employees, to those whose economic status is but little better. We have in mind the small independent producer or shopkeeper, who often is forced to remain independent because he is unable to obtain remunerative employment, either in industry or in commerce. As illustrations of this group may be named cobblers, tailors, bicycle-repairers, etc. Even the employment of one or two helpers is not always evidence that these employers earn more, and therefore need sickness insurance less, than expert mechanics. The admission of such individuals into the sickness-insurance system causes no difficulties for the latter, and may be a great advantage. Of course, in the case of all these voluntary groups, there is no contribution from the employer, either because of the absence of one, or because of the evident difficulty of such contribution in case of voluntary insurance. But the advantages of voluntary insurance are found in the economical management and careful state supervision of the insurance-carriers, and perhaps also in the government subsidy in which those voluntarily insured may be permitted to share. The question of such subsidy will be discussed in a subsequent section.

In any case, the existence of such advantages may require a limitation even to the voluntary insurance, and a convenient limitation may be found in the amount of annual income. Under the present level of prices, an annual income of $1,500 may present a convenient dividing line, above which we find families able to solve the problem without any government compulsion or subsidy. Yet no dogmatic importance need be attached to this line of division. It will be necessary in the beginning, because the need of social insurance must still be argued from the economic necessities of the wage-workers; but in Europe at present this demand for the extension of the social-insurance methods to the middle class is very great, and in many instances has led to legislation.

Disabilities covered.—The term "sickness insurance" may permit of several interpretations. The various branches of social insurance gradually merge into one another. As it is often difficult to draw the exact line of demarkation between disease and industrial injury, sickness insurance often merges into accident insurance.

Even disability consequent upon old age is not always easily distinguished from sickness, and between these two lies the entire field of permanent invalidity. As a matter of fact, the artificial lines of division between the different branches of social insurance established in different countries do not often coincide. When the structure of social insurance is complete, these lines of demarkation are perhaps of secondary importance. Their effect is felt primarily in the different incidence of cost, which is far less important than the existence of the provision. When the social insurance is only in the making, however, these exact circumscriptions of the field to be covered by every new plan proposed often determine the time when a certain group of cases of destitution is to receive the necessary relief. It is imperative, therefore, that the exact limitations of the phrase "sickness insurance" be carefully defined.

Disease and accident.—Under this caption two problems present themselves, that of industrial and that of non-industrial accidents. The great publicity given to the question of workmen's compensation during the last few years has thrown the question of non-industrial accidents into obscurity.

Accidents may be defined as traumatic diseases (diseases or conditions brought about by external violence). Wage-workers, like other people, are subject to all these accidents of everyday life which are so frequent, particularly in this country. Perhaps few writers on the subject appreciate the importance of the non-industrial accidents. Out of 538,808 cases treated by the famous Leipzig local sick fund in 1887–1905, 62,295, or 11.5 per cent, were cases of non-industrial accidents, while the number of industrial accidents was only 42,893, or 8 per cent.

It is the uniform practice, therefore, in practically all sickness-insurance systems, to treat cases of non-industrial accidents exactly in the same way in which cases of sickness are treated. The only notable exception is the new law of Switzerland, which has brought into existence a special system of insurance against non-industrial accidents. Under this system more substantial benefits are given than otherwise would be due, but the necessity of further complicating the structure of social insurance seems to be a serious objection. Of course non-industrial accidents often result in

permanent disability which the sickness-insurance system usually does not take cognizance of, but it seems preferable to treat such cases in the same way in which other cases of invalidity are treated.

Somewhat more complicated is the question of industrial accidents. The treatment of such cases largely depends upon whether or not accident compensation exists at the time of the establishment of the sickness-insurance system.

In Europe sickness-insurance systems have been established in a few cases before accident compensation. It is quite certain, however, that in this country a sickness insurance has no chance at all in any state before an accident-compensation law has been passed. Of course, if no accident-compensation law exists, the problem of industrial accidents does not seem to differ from that of non-industrial accidents except for one feature: there is the opportunity in many cases to collect more or less substantial damages from the employer. Even in case of non-industrial accidents, a similar opportunity often presents itself as against the responsible person, since the law of "public" liability is in practice very much more stringent than that of employers' liability.

It is not the intention of the sickness-insurance law to create a condition of over-insurance, where the benefits may be larger than the loss, but, on the other hand, verdicts in liability suits are not collected without great loss of time, and immediate aid may be necessary. The situation may require special administrative provisions, not only in the case of non-industrial accidents, or industrial accidents where no compensation laws exist, but even in the presence of a compensation law, the application of which in most cases is subject to many narrow limitations. In other words, if in New York, for instance, an employee is injured, but for some reason finds himself outside of the protection of the compensation act, the sickness-insurance system should be made applicable. Where, however, the compensation law does apply, it is not and should not be the intention that double indemnity be paid. The simplest way would be an automatic rule, by which a case comes under the provision of either one or the other of the two insurance organizations. In practice, however, the line of division is not so well defined. In all the three countries whose systems are

analyzed for the purpose of deriving a set of standards, the sickness-insurance carriers are required to carry part of the cost of accident compensation.

Germany has found it expedient to place the handling and compensation of all industrial accidents for the first 13 weeks of disability upon the sickness-insurance funds. Accordingly, industrial accidents for the first 13 weeks are, with a few minor exceptions, treated like all other cases of sickness. Similar treatment is given to industrial accidents in most other countries with compulsory sickness insurance, though the period of disability, the cost of which is imposed upon sickness-insurance funds, varies.

The argument which may be made in favor of such arrangements is that the sickness-insurance carrier has the necessary machinery for the handling of such cases. Since the vast majority of all cases of industrial accidents result in complete recovery before the expiration of 13 weeks (probably 94 per cent), the compensation-insurance machinery is relieved of the largest share of the work. A complete organization of a duplicate set of officers for handling the medical care and distribution of weekly benefits undoubtedly contains a serious element of waste.

Where accident compensation has come subsequently to sickness insurance, the uselessness of such duplication has been apparent. But, on the other hand, the grave objection may be raised that such an arrangement, in a thinly disguised form, forces back upon the wage-workers part of the cost of the accident compensation which is admitted by the very theory of compensation to be a proper charge upon industry. In Germany, the defense against this charge is found in the employers' contribution to the cost of sickness insurance. Even this defense, however, is absent in the case of Denmark, where the accident-compensation act does not come into play until after 13 weeks of disability, and all these cases are handled by the sickness-benefit funds, though the employer does not contribute anything to the support, and though insurance in these funds is voluntary and therefore not universal.

Great Britain has not followed this rather objectionable method, perhaps for the reason that in that country compensation had existed for fifteen years before the sickness-insurance law went into

effect. The British law has, however, a waiting period of one week, unless the injury has lasted over two weeks. In such cases, the sickness-insurance system takes care of the injured. Moreover, the accident-insurance benefits being stated in percentage of wages, and the sickness benefits being specific (of which more later), cases may arise when the sickness benefits are higher than the accident benefits, in which cases the difference is paid to the injured from the sickness-insurance fund.

Altogether, it is evident that the entire charge placed upon the sickness insurance through industrial accidents in Great Britain is not very great, and, in view of the substantial contributions by the employer to the sickness-insurance fund, it may be disregarded.

In the United States, the corresponding provisions of the compensation acts place us in this respect between Germany and Great Britain. In most of the American acts, a waiting period of two weeks has been established, and only in a few states is it limited to one week. The two weeks' waiting period represents a very serious problem; it has called forth severe criticism alike from labor organizations and from many social-insurance experts. It leaves a very large number of accidents without any compensation. Efforts toward its abolition, or reduction to not over one week, are being made. Unless these efforts are successful before sickness insurance has been introduced there is serious danger of a part of the cost of compensation being shifted over to the sickness-insurance funds. In itself this cost may not be so very high, but, by increasing the apparent cost of sickness insurance, it may injure the cause of the latter.

And yet there is undoubtedly a material administrative advantage in the very large number of minor injuries being handled by the sickness-insurance organization, whatever the type of the latter may be. Being democratically managed, it offers less incentive to malingering and exaggeration, and since it requires a comprehensive organization of medical help, it may be able to furnish this at a lower cost than does the present organization of accident compensation.

Co-operation between the two systems is something very different from shifting a part of the cost from the employer to the

employee. A workable agreement between the two systems, embodied in legislation, by means of which most of the minor cases would be handled by the sickness-insurance carriers, while the cost of such cases would be reimbursed from the accident-compensation fund, would furnish a constructive contribution to the practice of social insurance.

Sickness insurance and occupational diseases.—Until recently Great Britain was the only country whose compensation act specifically, and not by construction, recognized occupational diseases as a basis for workmen's compensation. By judicial construction several American states have accomplished the same purpose, but the practice is far from uniform. It goes without saying that where occupational diseases have been left out of the compensation acts, they would be covered by the sickness-insurance law. But the fiscal principle of the shifting of cost is also involved here. Besides, if the sickness-insurance benefits be limited in their extent, as compared with accident compensation, there may still remain a very important argument in favor of bringing these cases under the compensation act. This is especially true in regard to cases of occupational diseases resulting fatally.

Sickness and invalidity insurance.—The relation between these two branches of social insurance is very much more important than the last two or three problems discussed. A definite decision concerning this is necessary, at the very outset, because a good many problems of organization and finance are dependent upon it. It will be necessary, therefore, to go into some detail concerning this question.

Theoretically, it is not easy to draw the dividing line between sickness and invalidity. One merges into the other. Under sickness so-called acute attacks are usually understood. Invalidity is permanent (or at least chronic, prolonged) illness and disability, or disability due to previous illness. Qualitatively, also, sickness is understood to carry with it total disability for the time being (or else the sick benefits are not granted), while the definition of invalidity may be more lenient, and may be interpreted to mean a substantial reduction of earning capacity, due to failing health and strength. Thus, invalidity gradually shades into old age at the other end.

It is quite clear that as an economic problem invalidity is of equal importance with that of sickness, and, as far as the individual cases are concerned, of even greater importance. There can be no question as to the desirability of the insurance method of provision against it. The real problem is whether invalidity for insurance purposes should be merged with sickness, on which it borders on one side, or with old age, on which it borders on the other; or whether, finally, it should be made a matter for distinct treatment.

The predominating method under compulsory sickness-insurance systems is to deal with temporary total disability, and leave invalidity to the old-age insurance systems. That is essentially the German plan, followed by most continental systems. Under this system temporary invalidity may be treated by the sickness-insurance institutions, primarily as far as periods of recuperation from acute illness are concerned; but outside of that a definite time limit exists beyond which the disabled cannot be cared for by the sickness-insurance carrier.

In Germany, the dividing line between sickness and invalidity is the maximum limit of 26 weeks (raised in 1903 from the original 13 weeks' limit) which individual sickness-insurance funds may increase to a year. The invalidity and old-age insurance system handles both the cases of permanent invalidity and also the cases of sickness extending beyond the normal sickness period. The distinctive feature of the German system is that invalidity is defined as inability to earn more than one-third of the normal amount, and therefore embraces what in the jargon of compensation is known as permanent partial disability.

In Denmark, the system being voluntary, individual associations are permitted to determine the details for themselves; but according to the law, money benefits can be granted only in case of actual sickness and complete disability, not partial disability or invalidity. As a matter of fact, very few insurance funds grant benefits for over 13 weeks.

In Great Britain, on the other hand, invalidity insurance is joined with sickness into one system, so far as organization and finances are concerned, although the benefits are different. The

invalidity benefits are termed "disablement benefits" and may be given for life, while sick benefits are payable for 26 weeks only. The definition of invalidity is strict and narrow, including only total disability, and is, therefore, more comparable to the benefits given in Germany to cases of sickness extending beyond 26 weeks, than to the German invalidity benefits.

With the two great precedents of Germany and Great Britain entirely at variance with each other, the question as to the comparative advantages of the two systems is not an easy one. Actuarially the treatment required by the two systems is not at all similar. As will be explained at greater length presently, when the financial basis is studied, sickness insurance deals mainly with a constant charge. While the rate of sickness increases with age, the rate of increase is not very great, and the average age of any industrial group is not very much subject to change. Since the maximum cost of any one case is limited, substantial reserves are scarcely necessary.

Financially, sickness insurance is elastic; deficits, if any, develop rapidly and may be rapidly corrected. For this reason the German system can afford to leave the financial problems to the determination of the separate sick funds.

On the other hand, invalidity is largely a result of advancing age. Like old-age insurance, invalidity insurance requires substantial reserve, if a rapid increase in cost of such insurance is to be prevented. Invalidity insurance is therefore a matter for long-term contracts; it is a permanent agreement which must be subject to strict control if the solvency of the insurance-carriers is to be guaranteed. For this reason, invalidity insurance (like old-age insurance) in Germany is carried on by the larger insurance institutes, which are practically state institutions and are all the time under strict government control. To insure a fair balance between income and expenditures a very careful actuarial study of invalidity statistics must precede the preparation of the rates.

When invalidity benefits are combined with sick benefits, as was done in Great Britain, and one rate of contribution is quoted for both, all the actuarial difficulties of invalidity insurance are extended over the entire sickness-insurance system. The solvency

of the sickness-insurance carrier may be only apparent, because the funds which should have been accumulated to meet the future increasing charge of invalidity may have been utilized in payment of sick benefits. Nevertheless, if the sickness-insurance system is based upon compulsion to insure with a prescribed carrier, the financial difficulty may not be fatal. So long as the insurance-carrier is sure of its hold on a definite group of insured, it can meet the increased cost by distribution among all of them. The excessive burden may be felt, but cannot be escaped. But the British system unfortunately was based upon freedom of choice between insurance-carrier, and right of transfer from one carrier to another. Thus the financial problems became doubly complex. With a system of "level premiums," with which the public is familiarized through life insurance (i.e., premiums which should be increasingly larger, but which are recomputed to equal annual amounts, so that in the early years the premiums represent an over payment, and in later years are below the necessary amount, and the reserve accumulated in earlier years is gradually absorbed in the course of years), the entrance of an insured of advanced age would represent a loss to the insurance-carrier, unless the reserve value at his age is paid. The British system, therefore, required a very complex system of bookkeeping with reserve values for each age, and cross-entries between different funds for every case of transfer from one fund to another. This again required the centralization of all funds in government institutions. Thus many difficulties of accounting and actuarial practice were created, which were increased by the very uncertainty of actuarial data upon which all computations were made. A large share of the criticism of the British system emanates from these difficulties, while the German system dealing with sickness only has the advantage of simplicity and freedom from actuarial complications.

An explanation of the differences between the German and British methods may be found in the different provision made by the two countries for old age. Germany with its system of compulsory old-age insurance could very readily extend the activity of its insurance institute to cover invalidity as well. The British National Insurance act found Great Britain already in possession

of a system of non-contributory old-age pensions. Public opinion would not have countenanced the addition of non-contributory invalidity pensions (although there would have been a precedent for it in the French old-age pension act of 1907, which includes invalidity), and a separate organization for invalidity probably appeared too complex. A practical way out of the dilemma appeared in the combination (rather unusual in the history of social insurance) between sickness and invalidity insurance.

In this country the field is open for either method; we have neither compulsory old-age insurance nor non-contributory old-age pensions, nor has either of these two methods as yet entered the domain of practical politics. Both methods have already received the support of some theoretical propaganda; so far as popular support is concerned, the advantage seems to be on the side of non-contributory pensions, which have achieved considerable popularity among organized labor. Some preferences either for or against inclusion of invalidity may come as a result of partisanship in favor of either of these two plans. Adherents of non-contributory old-age pensions may prefer to see the problem of invalidity settled in connection with sickness insurance, with the hope of thus facilitating a system of non-contributory old-age pensions.

It should not be assumed, however, that these two problems stand to each other in the relation indicated. The question of comparative advantages of non-contributory pensions and compulsory insurance for the purpose of old-age relief may be decided on its own merits in due time. The present task of carrying through a system of sickness insurance will be very much simplified if it be kept separate from that of invalidity insurance.

Besides, the decision in favor of keeping these two branches of insurance actuarially distinct need not at all interfere with the simultaneous introduction of both systems, even by the same legislative enactment, as, for instance, the entirely independent systems of sickness and unemployment insurance have been established by the British National Insurance act of 1911, and as accident compensation and sickness insurance have been combined in the same Swiss law. Nor would it make some co-operation between the administrative organisms of the two systems impossible. The

only step that is here urged is that the actuarial foundations of the two systems be kept independent of each other, and the advantages of freedom from actuarial difficulties should be preserved for the sickness-insurance system as they easily can be.

Organization of sickness-insurance carriers.—In sickness insurance the question of type of insurance-carrier is very much more important than in compensation, and its discussion must precede that of all other details.

In compensation insurance, the essential problem is that of regulating the duties of one social class to the other. The extent of these duties must be very clearly stated, while in the method of meeting them, a certain latitude may be permitted. A compensation law only establishes the employers' liability on a new basis. If the insurance method is made compulsory, it is largely for the purpose of securing the payment of benefits established by the law. In actual practice as it has developed in Europe as well as in the United States, a great variety of insurance-carriers conduct compensation insurance, beginning with private-stock insurance companies, and up to purely governmental insurance funds.

Competition is frequently allowed between insurance-carriers of different types because it is believed that such competition will reduce the cost of insurance. It is usually assumed that the employers' class, being the class possessing business sense, will be able to decide as to the comparative advantages of the different insurance-carriers. Of course, public control over the private insurance-carriers is often found necessary, in order to secure fair adjustments of claims. Where state insurance-carriers conduct the business, they are usually self-supporting. If a state subsidy is given, protests are frequently heard that this is an unjustifiable dissipation of public funds for the purpose of subsidizing private employers, who are not the objects of social insurance.

The situation is evidently different in cases of sickness insurance where a considerable share of the cost is borne by the very class whose economic interests are to be protected. Contributions from the employer, and, in some countries, from the public treasury as well, are justified largely by the inability of the wage-workers to meet the entire cost.

The object of social sickness insurance is to give the insured as large a return for their contributions as possible. As a result, practically all social insurance against sickness in Europe is conducted by institutions or organizations of a public character, with the element of commercial profit entirely eliminated.

As to the actual type of the institution, there is considerable variation. In American literature "social insurance" is often used interchangeably with the term "state insurance." Yet there is very little direct "state insurance" in the field of sickness insurance, such as is found in the German old-age insurance system, or in the various state insurance organizations provided for compensation insurance in several American states, as Washington, Ohio, California, or New York. The term "state insurance" may be applied only in the sense of a very definite control, supervision, regulation, and financial subsidy. But in face of all these facts, a public co-operative institution may be very distinct from a state institution.

Perhaps the British system of all European systems of sickness insurance comes nearest to being a state insurance system, but even then, as will be explained presently, the insured individual deals with a public organization of a local character, and only the latter carries, as it were, with the state.

It is important to keep in mind this distinction between "state" and "public" insurance-carriers, because already there may be observed symptoms of a tendency in this country to carry the principle of direct state insurance from compensation into the sickness field. At least a few bills have been drawn to that effect. It is too early to say whether even in compensation the principle of bureaucratic state insurance has proved a success. But the entire growth of sickness insurance has been through development of the co-operative effort and democratic organization, and their results were too great to be neglected in favor of purely bureaucratic management.

As already indicated, the type of sickness-insurance organizations must largely depend upon the generic plan of insurance, whether it is voluntary or compulsory, and if the latter, whether the compulsion to insure leaves the choice of the particular carrier free

to the individual. In the three countries taken as types, all the three forms may be recognized.

In Denmark, the whole organization being voluntary, insurance is carried on by voluntary "recognized" societies. The state grants "recognition" and subsidies, in return for which it retains the right of supervision, and prescribes certain conditions which tend to standardize the activity of the fund. The one definite requirement which it must strictly enforce is that the organization receiving recognition and subsidy be kept free from any private profit-making.

Impartially the state is ready to encourage all types of organization, and if nearly 95 per cent of these funds are of the local type, embracing members of different trades and occupations, in a definite locality, that is the result of spontaneous growth. The remaining funds are either "trade funds" or factory or establishment funds, also local in their character.

Undoubtedly establishment funds have a certain administrative advantage, provided they are big enough for insurance purposes. Trade funds have the actuarial advantage of a tendency toward greater uniformity of sick rate, but they are practical in large cities only.

The variety of sickness-insurance funds existing in Germany has often been noted in American writings. It is unnecessary to go over the details of the different funds—local sick funds, establishment funds, building, miners', and other trade funds, practical aid funds, and the recently organized rural sick funds.

Nevertheless, the German system is built upon the principle of *Zwangsversicherung*, i.e., insurance with prescribed carriers. The seeming inconsistency between the principle of *Zwangsversicherung* and the variety of existing types is not sufficiently understood by American students and requires some explanation.

All compulsory sickness insurance has grown out of voluntary mutual insurance. The situation found in Denmark at present existed in Germany at the time the sickness-insurance law was adopted, though perhaps not in the same degree. The existing spontaneous institutions (local, trade, and establishment funds) were too valuable to be destroyed; besides, to destroy them would

have created a serious opposition to the whole plan. The existing institutions were preserved, and even the future formation of such forms of sick funds, which often have their serious advantages, is provided for. Nevertheless, the ideal or normal types were indicated in the law. These are the local funds, either for all trades, or for special trades, and establishment funds.

Notwithstanding the multiplicity of funds, the choice is not left to the individual (except for the mutual-aid funds, referred to presently). The organization of exceptional funds was made for collective decision and governmental approval. Nevertheless, the history of thirty years of insurance has indicated the preference for local funds over all others, even over the establishment funds. Within the local funds themselves, a process of consolidation is taking place.

The inclusion by the act of 1911 of the two large groups, domestics and farmhands, led to the establishment of a new type, the so-called rural fund, which is also a local fund for workers of a lower wage scale. Out of some 20,000,000 insured, about 7,500,000 are insured in local funds, another 7,500,000 in "rural" funds, and 3,000,000 in establishment funds, leaving only 2,000,000 for all other forms of funds.

Among the local funds, the Leipzig fund, which embraces the whole city, is truly famous. Membership in mutual-aid funds (comparable to friendly societies of fraternal orders) as a substitute for insurance in the compulsory institutions is only tolerated, and at the price of forfeiting the employers' contribution.

It is not difficult to ascertain the reasons for this tendency. Sickness insurance is primarily a matter for local administration. A great deal must be lost by the geographic extension of the organization. For one thing, the control over the beneficiaries is simplified by localization. The financing is made very much cheaper, for the amounts dealt with, both in the income and in the outgo, are small. And perhaps the most important factor is the facility of organizing proper medical help, which is a very difficult undertaking for an organization with a scattered membership. Even the establishment funds, though possessing the advantages enumerated above, are not so desirable as the ordinary local funds, because of

the predominating importance of one employer and the financial danger which may develop out of one localized epidemic.

Although the British National Insurance act has made very extensive use of German precedents, yet the organization of the sickness-insurance system in Great Britain has been built on diametrically opposite lines. Its basis is unrestricted freedom of choice as to the insurance-carrier. It is quite well understood that this is in deference to the strong British friendly societies, which correspond to the German mutual-aid funds (*Hilfskassen*) but have reached a very much greater degree of development. Not only did the British law leave these organizations undisturbed: it even refused to prescribe a definite form of organization to supplement them. It is perhaps idle to speculate whether the authors of the British act were wise in this decision. The compromise was forced upon the British government by the strength of the friendly societies, for it is quite certain that no bill could have passed in face of a united opposition of the five or six millions of members of friendly societies.

The British system is therefore based upon a voluntary choice of membership in some recognized mutual organization. At the same time the organizations have a practically unrestricted right of rejection of members (because the prohibition of rejection on the ground of age cannot be of practical value).

What were the practical results of this system?

1. While it is true that the membership of the friendly societies has increased considerably, the most noteworthy feature was the establishment of "recognized" societies by private industrial life-insurance companies, the membership of which exceeds five millions. While these "societies" must comply with the requirements of the law as to prohibition of profits and as to democratic management, it is nevertheless very doubtful whether this strengthening of the industrial companies was contemplated by the National Insurance act.

2. The lack of strict geographic limits of the activity of the friendly societies has created a very complex administrative problem of the "isolated member." In every large English city thousands of organizations have their representatives. The degree of participation of these members in the affairs of the societies must

necessarily be purely nominal, the control of the society over the beneficiaries difficult.

3. A direct relationship between the friendly society and the medical organization became quite impossible. A very complex organization of medical aid became necessary, whose working efficiency compared with that in Germany must be low. The very task of bringing the physician and the insured together became a matter of great difficulty, requiring a complex system of various card catalogues with many millions of cards.

4. Finally, the system created the problem of the uninsured, either because of unwillingness or because of inability to obtain membership in a "recognized" society. The solution of this problem by establishing the so-called "post-office contributors" is not a very happy one, since these are insured only up to the amount of their individual contributions, or rather not insured at all, but required to start compulsory saving accounts of very little value. It is true that the number of these residual "contributors" is not very large—only about half a million. Nevertheless they present an additional argument against the unsatisfactory methods of organization of the British sickness-insurance system.

What is the lesson of European experience in regard to the most practical and efficient method of social insurance against sickness which should be advocated in this country?

It seems quite certain that it is not a method of direct insurance by the state. In a certain sense the British system may be described as such a direct system. Though ostensibly based upon a freedom of choice as to the insurance-carrier, and shaped with due and perhaps excessive regard to the wishes of friendly societies, it nevertheless concentrates the financial transactions in a governmental commission, where a bewilderingly complex system of bookkeeping controls the income and outgo of every "approved" society, the transfers of membership, and the resulting movements of reserve values, etc. The system is "national" in that it embraces the whole nation, but largely governmental in its operation, and much less "national" in the better sense than is the German system.

Outside of this one precedent the entire lesson of history is in favor of the "local" public fund, whether built upon trade lines, where the number of insured is sufficiently large, or embracing all

the wage-workers of a locality. Of course no purely mechanical regularity as to these local funds need be required. As a rule it is desirable that they agree with the political subdivision, whether it be a county, township, or school district. In larger cities the organization of numerous funds may be encouraged in the beginning, because the administrative problems of such large funds as that of Leipzig are complex and should not be handled lightly.

While the "local" fund should be put forth as the new organization to be created by the law, and also the typical one, it must not be made exclusive. The existing conditions and organizations must be carefully reckoned with. In approaching the problem of sickness insurance the United States finds itself in about the situation in which Germany was thirty years ago. All kinds of voluntary sickness-insurance carriers exist, though the actual extent of their operations is unknown. A governmental investigation some seven or eight years ago indicated a membership of a little over one million, but probably failed to canvass the entire field, and since then the development of establishment and other funds has been very rapid. Perhaps fortunately, the American fraternal orders corresponding to the English friendly societies have selected the field of life insurance rather than that of health insurance, and therefore the influence of the existing organizations will not be so great as it was in Great Britain. But no unnecessary opposition need be created.

The following forms of sickness insurance, already existing or to be created, may therefore be easily incorporated in the general scheme.

Trade funds.—In large centers these undoubtedly have a certain advantage of community of interests between workers in the same trades. Besides, the existing trade-union sickness-insurance funds may be readily adjusted so as to fall in with the general scheme. In the larger cities, the presence of cosmopolitan and polyglot populations may make such local funds somewhat difficult, and in view of the well-known tendency of many nationalities to concentrate in special trades a trade fund may have the additional advantage of racial homogeneity.

Establishment funds.—These are gradually gaining popularity. Under present conditions of lack of control, they are subject to many

abuses, among which perhaps the most important are the insecurity of funds handled by the employer, and the arbitrary administration by the latter. But with these conditions eliminated there is no reason why, in large establishments, funds should not offer a very convenient carrier for sickness insurance.

Perhaps the most difficult problem is that presented by the existing sick-benefit societies, largely operated by working-men, but not on trade or local lines. The German *Kranken-* and *Sterbekasse* and the Jewish *Arbeiterring* are examples of these organizations. Often the social and political purposes of such organizations are as important to their membership as the functions of insurance. Their membership is scattered; it is not always limited to persons who would be subject to compulsory insurance. What shall be done with them?

As the participation in the insurance scheme carries with it substantial financial subsidies, pressure to admit these organizations may be expected. But, as will be explained later, the employer's subsidy must carry with it his right to participate in the administration of the sickness-insurance fund, and these voluntary organizations are not likely to meet with favor any suggestions as to relinquishing to the employer their present independence. This alone would furnish many reasons for friction.

If these independent organizations were permitted to enter the field of compulsory sickness insurance, a direct stimulus would be given to them for active soliciting of new membership, and a selection of risk would result to the detriment of the regular local funds. In other words, a wedge would be opened for the British system with all its drawbacks.

It seems preferable to make an effort to eliminate them before they become a stronger factor in sickness insurance than they are now. Of course, that does not mean that their existence must be interfered with. But if membership in one of these organizations seems to any worker preferable to that in the usual local funds, that may be permitted at the cost of forfeiting the subsidy coming from the employer and the state.

German experience shows that, notwithstanding these conditions, a certain membership in them will persist. Moreover, these strict conditions need not at all preclude the existence or

activity of the voluntary societies. Most of them combine other forms of insurance with that against sickness. They may still go on with those other forms, especially that of life insurance; and the fact that substantial sickness insurance will be obtained by their members through the regular compulsory system, at a cheaper cost to themselves, will permit a greater development of life insurance than before. They may also furnish additional insurance against sickness (the benefits under the compulsory system being necessarily limited).

Central organization.—What has been said above refers primarily to the type of local insurance carrier. This, however, must be an organic part of the entire system.

Constitutional difficulties will probably make any national system of sickness, or any other form of social insurance, impossible for many years. If progress is to be made in the near future, it must be, as it was in the case of compensation, on state lines. The brief experience with compensation has already indicated the main conditions of success of such social legislation. If special administrative commissions with wide judicial and even semi-legislative powers delegated to them were found necessary for the successful administration of compensation, similar commissions will be needed for sickness insurance. Nor does there seem indicated a combination of both branches of insurance in one commission, except perhaps in the smaller states. Quantitatively the problem of sickness insurance is the larger of the two. The proper launching of the system, the relations of individual members to the funds, the problems between the employer and employee, between employer and fund, between funds and the medical profession, between the funds and the state, the proper regulation of membership rates, the organization and the regulation of medical service, etc.—these are some of the problems that must be handled judiciously and expeditiously, as can only be done successfully by an efficient commission.

The above represents the barest outline of the organization of sickness insurance. The functions which it must perform, and the ways and the means of performing them will be discussed in the following instalment of the study.

I. M. RUBINOW

NEW YORK CITY